

**New Lothrop Area Public Schools  
New Lothrop, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2008**

New Lothrop Area Public Schools

New Lothrop, Michigan

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June 30, 2008

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New Lothrop Area Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
New Lothrop Area Public Schools  
New Lothrop, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of New Lothrop Area Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2008 on our consideration of New Lothrop Area Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope and testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise New Lothrop Area Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 17, 2008

This section of New Lothrop Area Public Schools' annual report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

New Lothrop Area Public Schools, a K-12 school district located in Shiawassee County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the New Lothrop Area Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

#### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand New Lothrop Area Public Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Capital Projects Fund individually, and the Special Revenue Funds and Debt Service Funds collectively as other nonmajor governmental funds. The remaining statements, the Statement of Fiduciary Net Assets, and the Statement of Changes in Fiduciary Net Assets, present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

#### **District-Wide Financial Statements**

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District-wide financial statements.

**Fund Financial Statements**

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**Summary of Net Assets:**

The following summarizes the net assets as of June 30, 2008 and 2007:

**Condensed Statement of Net Assets  
as of June 30, 2008 and 2007**

	Governmental Activities <u>2008</u>	Governmental Activities <u>2007</u>
<b>Assets</b>		
Current and Other Assets	\$ 2,373,094	\$ 8,579,247
Capital Assets	<u>19,027,645</u>	<u>15,517,444</u>
<b>Total Assets</b>	<b>21,400,739</b>	<b>24,096,691</b>
<b>Liabilities</b>		
Current Liabilities	1,136,738	3,294,480
Noncurrent Liabilities	<u>15,691,361</u>	<u>15,979,980</u>
<b>Total Liabilities</b>	<b>16,828,099</b>	<b>19,274,460</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	3,472,735	3,514,500
Restricted	126,509	435,920
Unrestricted	<u>973,396</u>	<u>871,811</u>
<b>Total Net Assets</b>	<b><u>\$ 4,572,640</u></b>	<b><u>\$ 4,446,274</u></b>

**Results of Operations:**

For the fiscal year ended June 30, 2008 and 2007, the District-wide results of operations were:

**Condensed Statement of Activities  
Year Ended June 30, 2008 and 2007**

	Governmental Activities 2008	Governmental Activities 2007
<b>Revenues:</b>		
Program Revenues		
Charges for Service	\$ 288,751	\$ 250,724
Operating Grants	338,273	313,617
General Revenues		
Property Taxes	930,829	866,779
State School Aid-unrestricted	5,595,770	5,557,842
Other	191,820	749,970
<b>Total Revenues</b>	<b>7,345,443</b>	<b>7,738,932</b>
<b>Functions/Program Expenses:</b>		
Instruction	3,725,576	3,640,625
Supporting services	1,974,414	2,082,383
Food service	317,367	276,775
Athletics	261,611	280,875
Interest on long-term debt	876,169	825,322
Unallocated depreciation	439,897	256,995
<b>Total Expenses</b>	<b>7,595,034</b>	<b>7,362,975</b>
<b>Change in Net Assets</b>	<b><u>\$( 249,591 )</u></b>	<b><u>\$ 375,957</u></b>

**Analysis of Results of Operations:**

During the fiscal year ended June 30, 2008, the District's net assets decreased by \$249,591. Several factors which caused the increase are discussed in the following sections.

**A. Governmental Fund Operating Results**

The District's expenditures from governmental fund operations exceeded revenues by \$3,981,663 for the fiscal year ended June 30, 2008, mainly due to capital projects which are capitalized and not expensed at the district-wide level, including the construction of a new elementary school and renovation projects in the high school. Further discussion of the District's operating results is available in the section entitled "Results of 2007-2008 Operations" located on the following pages.

**B. Capital Outlay**

Capital purchases are recorded as an asset at the government-wide level and depreciated over the useful lives of the assets. This considerably reduces the expenditures referenced in the preceding paragraph. During 2007-2008, the District added assets of \$3,950,098, and district assets depreciated in the amount of \$439,897, causing a net increase in net district assets of \$3,510,201.



**C. Long-Term Debt Activities**

The District's bonds payable decreased by \$380,000, the District recognized an arbitrage payable of \$160,000, accrued severance pay decreased by \$540, and accrued interest on existing debt decreased by \$1,331. As a result of these activities, net district long-term debt liabilities decreased by \$221,870.

**Results of 2007-2008 Operations**

During fiscal year ended June 30, 2008, the District net assets decreased by \$249,591. A few additional significant factors affecting net assets during the year are discussed below:

**A. General Fund Operations**

The General Fund is the main fund for the District and includes all the costs related to educating the students of the New Lothrop Area Public Schools such as: Salaries and benefits for Teachers, Classroom Paraprofessionals, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other.

The District's revenues from General Fund operations exceeded expenditures by \$88,627 for the fiscal year ended June 30, 2008. The General Fund as of June 30, 2008, has a fund balance of \$1,017,685 or 17.0% of expenditures and other financing uses for the 2007-2008 fiscal year.

**B. Debt Service Fund Operations**

The Debt Service Fund is set up to collect taxes and state revenues and pay annual debt payments. At June 30, 2008, the Debt Service Fund had \$249,803 in fund equity available for future bond payments.

The School District levies taxes to make debt payment obligations. If taxes levied are not sufficient the School District will borrow funds from the Michigan School Bond Loan Fund (SBLF). Any funds borrowed from the Michigan School Bond Loan Fund will be paid back toward the end of the bond obligations. In the fiscal year ended June 30, 2008, the School District did not borrow anything from the SBLF. The District also had compensated absences outstanding at June 30, 2008, which totaled \$86,284.

The District had changes to their long-term debt obligations as follows:

	Principal Balance <u>June 30, 2007</u>	Principal <u>Additions</u>	Principal <u>Payments</u>	Principal Balance <u>June 30, 2008</u>
2006 Bonds	\$ 16,280,000	\$ -	\$ 380,000	\$ 15,900,000
Durant Bonds	<u>31,172</u>	<u>-</u>	<u>-</u>	<u>31,172</u>
Total long-term bond obligations	<u>\$ 16,311,172</u>	<u>\$ -0-</u>	<u>\$ 380,000</u>	<u>\$ 15,931,172</u>

**C. School Service Funds**

The New Lothrop Area Public Schools also has school service funds that include the following: Food Service Fund and Athletics Fund.

The Food Service Fund is a fund that reports the food service program activities. In 2007-2008 the Food Service Fund had revenues of \$328,422 and expenditures of \$317,367. The Food Service Fund is self-supporting. The Food Service Fund had a fund balance of \$40,632.

The Athletics Fund includes all costs for athletic programs including the cost for coaches, officials, supplies, tournaments, and miscellaneous. Transportation cost is accounted for in the General Fund. In 2007-2008 the Athletics Fund had revenues and other financing sources of \$262,974 and expenditures of \$261,611. The Athletics Fund generated \$26,922 in revenue from gate receipts, passes, fees, donations, and other miscellaneous items. The Athletics Fund must be a balanced budget and the District contributed \$236,052 from the General Fund to balance the fund. The Athletics Fund had a fund balance of \$1,363.

#### **D. Net Investment in Capital Assets**

The District's net investment in capital assets increased by \$3,510,201 during the fiscal year. This can be summarized as follows:

	<u>Balance June 30, 2007</u>	<u>Net Change</u>	<u>Balance June 30, 2008</u>
Capital assets	\$21,722,922	\$ 2,313,164	\$ 24,036,086
Less: accumulated depreciation	<u>(6,205,478 )</u>	<u>1,197,037</u>	<u>( 5,008,441 )</u>
Net investment in capital outlay	<u><b>\$15,517,444</b></u>	<u><b>\$ 3,510,201</b></u>	<u><b>\$19,027,645</b></u>

### **IMPORTANT ECONOMIC FACTORS**

#### **A. State of Michigan Unrestricted Aid (Net State Foundation Grant)**

The State of Michigan aid, unrestricted, is determined with the following variables:

- State of Michigan State Aid Act per student foundation allowance.
- Student Enrollment - Blended at 75 percent of prior year's fall count and 25 percent of prior year's winter count.
- The District's non-homestead property valuation.

#### **B. Per Student Foundation Allowance**

Annually, the State of Michigan establishes the per student foundation allowance. The New Lothrop Area Public Schools foundation allowance was \$7,204 per student for the 2007-2008 school year.

#### **C. Student Enrollment**

The District's State aid membership count for 2007-2008 was 797 students. The District's enrollment decreased slightly from the prior school year's student count.

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2007-2008	797	(4)
2006-2007	801	13
2005-2006	788	7

**D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)**

The District levies 18.000 mills (after Headlee Rollback) of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for 2007-2008 fiscal year was approximately \$156,000. The non-homestead tax levy increased by approximately 15.5% over the prior year.

**E. Debt Fund Property Taxes**

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2006-2007 the District's debt millage levy was 7.17 mills, which generated revenue of approximately \$775,000.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**

Listed below is an analysis of the original budget and final budget to the final actual.

**General Fund Revenues and Other Sources, Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2007-2008	5,851,761	6,073,835	6,071,282	3.8%	0.0%
2006-2007	6,001,610	5,997,332	5,980,199	(0.1)%	(0.3)%
2005-2006	5,629,299	5,716,384	5,719,062	1.6%	0.05%

**General Fund Expenditures and Other Uses Budget vs. Actual**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>	
				<u>Actual &amp; Original Budget</u>	<u>Actual &amp; Final Budget</u>
2007-2008	5,873,045	6,098,042	5,982,655	(1.9)%	1.9%
2006-2007	5,944,782	6,068,634	5,980,309	(2.0)%	1.5%
2005-2006	5,871,266	5,800,849	5,780,633	1.5%	0.3%

**Original vs. Final Budget:**

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, New Lothrop Area Public Schools amends its budget periodically during the school year. The June 2008 budget amendment was the final budget for the fiscal year.

**Revenue Change from Original to Final Budget:**

		<u>Percent</u>
Total Revenues Original Budget	\$ 5,851,761	100.0
Total Revenues Final Budget	<u>6,073,835</u>	<u>103.8</u>
Increase in Budget Revenues	<u>\$ 222,074</u>	<u>3.8</u>

The District's final actual general fund revenues differed from the final budget by \$2,553, a variance of (0.04)% from the final budget.

**Expenditures Change from Original to Final Budget:**

The District's budget for expenditures changed as follows during the year:

		<u>Percent</u>
Total Expenditures Original Budget	\$ 5,873,045	100.0
Total Expenditures Final Budget	<u>6,098,042</u>	<u>103.8</u>
Increase in Budget Expenditures	<u>\$ 224,997</u>	<u>3.8</u>

The District's actual expenditures were less than the final budget by \$115,387 or 1.9% percent.

**Additional Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration considered many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year was 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2009 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 95 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-2009 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2009 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office, New Lothrop Area Public Schools, 9825 Easton Road, New Lothrop, Michigan 48460.

## **BASIC FINANCIAL STATEMENTS**

New Lothrop Area Public Schools

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 1,285,606
Accounts receivable	4,309
Due from other governmental units	1,081,353
Inventories	1,826
Total current assets	2,373,094
Noncurrent assets	
Capital assets not being depreciated	56,000
Capital assets, net of accumulated depreciation	18,971,645
Total noncurrent assets	19,027,645
<b>TOTAL ASSETS</b>	<b>21,400,739</b>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	64,912
Accrued payroll	331,556
Other accrued liabilities	130,881
Accrued interest payable	123,294
Current portion of compensated absences	43,142
Current portion of long-term debt	442,953
Total current liabilities	1,136,738
Noncurrent liabilities	
Noncurrent portion of compensated absences	43,142
Noncurrent portion of long-term debt	15,648,219
Total noncurrent liabilities	15,691,361
<b>TOTAL LIABILITIES</b>	<b>16,828,099</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,472,735
Restricted for debt service	126,509
Unrestricted	973,396
<b>TOTAL NET ASSETS</b>	<b>\$ 4,572,640</b>

See accompanying notes to financial statements.

New Lothrop Area Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	
				Governmental Activities
Governmental activities				
Instruction	\$ 3,725,576	\$ 51,789	\$ 196,525	\$ (3,477,262)
Supporting services	1,974,414	-	23,391	(1,951,023)
Food Service	317,367	210,065	118,357	11,055
Athletics	261,611	26,897	-	(234,714)
Interest and costs on long-term debt	876,169	-	-	(876,169)
Unallocated depreciation	439,897	-	-	(439,897)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 7,595,034</b>	<b>\$ 288,751</b>	<b>\$ 338,273</b>	<b>(6,968,010)</b>
		General revenues		
		Property taxes		930,829
		State school aid - unrestricted		5,595,770
		Investment earnings		151,065
		Miscellaneous		40,755
		<b>TOTAL GENERAL REVENUES</b>		<b>6,718,419</b>
		<b>CHANGE IN NET ASSETS</b>		<b>(249,591)</b>
		Net assets, beginning of year		4,822,231
		Net assets, end of year		<b>\$ 4,572,640</b>

See accompanying notes to financial statements.

New Lothrop Area Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Capital Projects	2006 Debt
<b>ASSETS</b>			
Cash and cash equivalents	\$ 506,442	\$ 493,530	\$ 251,928
Accounts receivable	3,558	-	-
Due from other governmental units	1,079,190	-	-
Due from other funds	1,951	100,219	-
Inventories	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,591,141</b>	<b>\$ 593,749</b>	<b>\$ 251,928</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 7,414	\$ 57,487	\$ -
Accrued payroll	331,153	-	-
Due to other funds	104,039	-	2,125
Other accrued liabilities	130,850	-	-
<b>TOTAL LIABILITIES</b>	<b>573,456</b>	<b>57,487</b>	<b>2,125</b>
<b>FUND BALANCES</b>			
Reserved for			
Inventories	-	-	-
Debt service	-	-	249,803
Unreserved			
Undesignated, reported in			
General fund	1,017,685	-	-
Special revenue funds	-	-	-
Capital project fund	-	536,262	-
<b>TOTAL FUND BALANCES</b>	<b>1,017,685</b>	<b>536,262</b>	<b>249,803</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,591,141</b>	<b>\$ 593,749</b>	<b>\$ 251,928</b>

See accompanying notes to financial statements.



Nonmajor Governmental Funds	Total Governmental Funds
\$ 33,706	\$ 1,285,606
751	4,309
2,163	1,081,353
5,945	108,115
1,826	1,826
<u>\$ 44,391</u>	<u>\$ 2,481,209</u>
\$ 11	\$ 64,912
403	331,556
1,951	108,115
31	130,881
<u>2,396</u>	<u>635,464</u>
1,826	1,826
-	249,803
-	1,017,685
40,169	40,169
-	536,262
<u>41,995</u>	<u>1,845,745</u>
<u>\$ 44,391</u>	<u>\$ 2,481,209</u>

New Lothrop Area Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS

June 30, 2008

**Total fund balance - governmental funds** **\$ 1,845,745**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 24,036,086	
Accumulated depreciation is	<u>(5,008,441)</u>	
		19,027,645

Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and arbitrage payable	16,091,172	
Compensated absences	86,284	
Accrued interest payable on long-term debt	<u>123,294</u>	
		<u>(16,300,750)</u>

**Net assets of governmental activities** **\$ 4,572,640**

See accompanying notes to financial statements.

New Lothrop Area Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Capital Projects	2006 Debt
REVENUES			
Local sources	\$ 255,597	\$ 132,059	\$ 786,758
State sources	5,686,304	-	-
Federal sources	88,586	-	-
TOTAL REVENUES	6,030,487	132,059	786,758
EXPENDITURES			
Current			
Instruction	3,705,839	-	-
Supporting services	2,021,027	-	-
Food service	-	-	-
Athletics	-	-	-
Capital outlay	-	3,904,025	-
Debt service	-	-	1,097,500
TOTAL EXPENDITURES	5,726,866	3,904,025	1,097,500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	303,621	(3,771,966)	(310,742)
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Payments from other districts	40,795	-	-
Payments to other districts	(19,737)	-	-
Transfers to other funds	(236,052)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(214,994)	-0-	-0-
NET CHANGE IN FUND BALANCES	88,627	(3,771,966)	(310,742)
Fund balances, beginning of year	929,058	4,308,228	560,545
Fund balances, end of year	\$ 1,017,685	\$ 536,262	\$ 249,803

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 236,987	\$ 1,411,401
15,328	5,701,632
103,029	191,615
355,344	7,304,648
-	3,705,839
-	2,021,027
317,367	317,367
261,611	261,611
-	3,904,025
-	1,097,500
578,978	11,307,369
(223,634)	(4,002,721)
236,052	236,052
-	40,795
-	(19,737)
-	(236,052)
236,052	21,058
12,418	(3,981,663)
29,577	5,827,408
\$ 41,995	\$ 1,845,745

New Lothrop Area Public Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

**Net change in fund balances - total governmental funds** **\$ (3,981,663)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 3,950,098	
Depreciation expense	<u>(439,897)</u>	
Excess of capital outlay over depreciation expense		3,510,201

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Other bond related items do not require the use of current financial sources so are not reported as expenditures in governmental funds. In the current year, these amounts consist of:

Bond principal retirement	380,000	
Increase in arbitrage payable	<u>(160,000)</u>	
		220,000

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	1,331	
Decrease in compensated absences	<u>540</u>	
		<u>1,871</u>

**Change in net assets of governmental activities** **\$ (249,591)**

See accompanying notes to financial statements.

New Lothrop Area Public Schools

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash	\$ 1,534	\$ 57,939
LIABILITIES		
Due to individuals	\$ -	\$ 57,939
NET ASSETS		
Held in trust for private purposes	\$ 1,534	

See accompanying notes to financial statements.

New Lothrop Area Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2008

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings	
Interest	\$ 61
DEDUCTIONS	-
CHANGE IN NET ASSETS	61
Net assets - beginning of year	1,473
Net assets - end of year	\$ 1,534

See accompanying notes to financial statements.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of New Lothrop Area Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5, these financial statements present the financial activities of New Lothrop Area Public Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

**2. Basis of Presentation**

**DISTRICT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

**FUND FINANCIAL STATEMENTS**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used to fund capital acquisitions related to the 2006 General Obligation Bond proceeds and other miscellaneous capital project activities.
- c. 2006 Debt Fund - The 2006 Debt Fund is used to account for financial resources used to retire the 2006 General Obligation Bonds.



New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The district-wide and fiduciary trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency fund since assets equal liabilities.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet, when applicable. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The District does not maintain a formalized encumbrance accounting system. All unexpended appropriations lapse at fiscal year end.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**5. Budgets and Budgetary Accounting - continued**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.
- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Three (3) supplemental appropriations were made during the year with the final amendments being approved June 16, 2008.

**6. Cash and Cash Equivalents**

Cash and cash equivalents consist of checking, savings, money market accounts, U.S. government securities, and pooled investment funds with an original maturity of 90 days or less. Cash equivalents are recorded at market value.

**7. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

**8. Due From Other Governmental Units**

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2008, to be paid in July and August 2008. Of the total amount of \$1,081,353 due from other governmental units, \$1,032,887 consists of State Aid and the remainder, \$48,466, is other local programs.

**9. Inventories**

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Capital Assets**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	50 years
Equipment, furniture and other assets	10 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

**11. Compensated Absences**

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated sick leave and vacation payable amounts to be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

**12. Accrued Interest Payable**

Accrued interest is presented for long-term obligations in the district-wide statements.

**13. Long-term Obligations**

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**14. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7.17 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**15. State Foundation Revenue**

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

**16. State Categorical Revenue**

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue, when they are present.

**17. Interfund Transactions**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers in the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

**18. Federal Programs**

Federal programs are accounted for in the General Fund and specific Special Revenue Funds.

**19. Comparative Data**

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

**NOTE B: POOLING OF CASH AND CASH EQUIVALENTS AND CASH OVERDRAFT**

The District utilizes pooled cash accounts for approximately three (3) funds. Cash overdrafts of individual funds as of June 30, 2008, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Non-pooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
Nonmajor governmental funds			
Special revenue funds			
Athletics	<u>\$ ( 4,228 )</u>	<u>\$ -</u>	<u>\$ ( 4,228 )</u>

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE C: CASH AND CASH EQUIVALENTS**

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being actions 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

**Deposits**

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the District's deposits was \$211,269 and the bank balance was \$221,665, of which \$170,039 was covered by federal deposit insurance. The balance of \$51,626 was uninsured and uncollateralized. The District had \$100 of imprest cash on hand.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE C: CASH AND CASH EQUIVALENTS - CONTINUED**

Investments

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MILAF	\$ 687,811	\$ 971,435	N/A
JP Morgan Treasury Money Market	<u>445,899</u>	<u>445,899</u>	N/A
	<u>\$ 1,133,710</u>	<u>\$ 1,417,334</u>	

The difference between the carrying amount and the market value in the MILAF fund was outstanding checks at June 30, 2008.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investment in the uncategorized pooled investments with MILAF and JP Morgan were rated AAA by Standard and Poor's.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

As of June 30, 2008, the cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	<u>\$ 1,285,606</u>	<u>\$ 59,473</u>	<u>\$ 1,345,079</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE D: FLEXIBLE BENEFITS PLAN**

In October 1996, the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan is available to all employees who are eligible to have health coverage under the employer's health insurance plan. The plan permits them to waive health insurance coverage from the District and receive a cash benefit in lieu of such health insurance.

The Plan is administered by New Lothrop Area Public Schools.

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2008</u>
Capital assets, not being depreciated				
Land	\$ 6,000	\$ 50,000	\$ -	\$ 56,000
Construction in progress	<u>12,144,667</u>	<u>3,705,558</u>	<u>( 15,850,225 )</u>	<u>-0-</u>
Total capital assets not being depreciated	12,150,667	3,755,558	( 15,850,225 )	56,000
Capital assets being depreciated				
Land improvements	151,240	-	( 21,600 )	129,640
Buildings and additions	7,604,150	15,903,785	( 1,574,650 )	21,933,285
Equipment, furniture, and other assets	1,226,992	-	-	1,226,992
Vehicles	<u>589,873</u>	<u>140,980</u>	<u>( 40,684 )</u>	<u>690,169</u>
Total capital assets being depreciated	9,572,255	16,044,765	( 1,636,934 )	23,980,086
Less accumulated depreciation for:				
Land improvements	( 96,498 )	( 4,297 )	21,600	( 79,195 )
Buildings and additions	( 4,848,264 )	( 320,797 )	1,574,650	( 3,594,411 )
Equipment, furniture, and other assets	( 882,602 )	( 57,088 )	-	( 939,690 )
Vehicles	<u>( 378,114 )</u>	<u>( 57,715 )</u>	<u>40,684</u>	<u>( 395,145 )</u>
Total accumulated depreciation	<u>( 6,205,478 )</u>	<u>( 439,897 )</u>	<u>1,636,934</u>	<u>( 5,008,441 )</u>
Total capital assets being depreciated	<u>3,366,777</u>	<u>( 15,604,868 )</u>	<u>-0-</u>	<u>18,971,645</u>
Capital assets, net	<u>\$15,517,444</u>	<u>\$ 19,360,426</u>	<u>\$( 15,850,225 )</u>	<u>\$19,027,645</u>

Total depreciation expense of \$439,897 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

**NOTE F: SHORT-TERM NOTES**

On October 19, 2007, the District issued a short-term State School Aid Anticipation Note in the amount of \$200,000 for the purpose of funding operating expenditures until the 2008 State Aid payments resumed. This short-term note was paid, including accrued interest, when it was due April 1, 2008.

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due within One Year
1998 Durant Resolution Bonds	\$ 31,172	\$ -	\$ -	\$ 31,172	\$ 17,953
2006 General Obligation Bonds	16,280,000	-	380,000	15,900,000	425,000
Compensated Absences	86,824	143,390	142,850	86,284	43,142
Arbitrage Payable	-	160,000	-	160,000	-
	<u>\$16,397,996</u>	<u>\$ 303,390</u>	<u>\$ 522,850</u>	<u>\$16,177,456</u>	<u>\$ 486,095</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation

\$16,280,000 2006 Building and Site General Obligation Bonds dated February 9, 2006, due in annual installments ranging from \$425,000 to \$650,000 through May 1, 2035, with interest of 3.5 percent to 5.0 percent, payable semi-annually. \$15,900,000

Resolution

\$52,791 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$3,078 to \$17,953 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009. 31,172

\$15,931,172

Compensated Absences

Sick Leave - In recognition of services to the District, a sick leave payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice.

Vacation Payable - In recognition of services to the District, any accumulated unused vacation days payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The sick and vacation liabilities, including the related payroll taxes, have been recorded in the district-wide financial statements as compensated absences in the amount of \$86,284.

Arbitrage Payable

The Internal Revenue Code defines rebatable arbitrage as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if such nonpurpose investments were invested at the bond yield rate of the applicable bonds.

Based on computations calculated by an outside consultant of the District, it was determined that the \$16,280,000 2006 Building and Site General Obligation Bond issue has a rebatable arbitrage liability as of June 30, 2008 of \$160,000. This liability is due and payable from remaining bond proceeds and the earnings. The debt related to this liability has been recorded in the district-wide financial statements.



New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: LONG-TERM DEBT- CONTINUED**

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 17,953	\$ 6,955	\$ 425,000	\$ 702,075
2010	3,078	629	475,000	687,200
2011	3,224	482	525,000	670,575
2012	3,378	329	525,000	650,888
2013	3,539	168	550,000	631,200
2014-2018	-	-	2,825,000	2,823,000
2019-2023	-	-	3,000,000	2,227,975
2024-2028	-	-	3,125,000	1,558,595
2029-2033	-	-	3,150,000	800,000
2034-2036	-	-	1,300,000	97,500
	<u>\$ 31,172</u>	<u>\$ 8,563</u>	<u>\$15,900,000</u>	<u>\$10,849,008</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on New Lothrop Area Public Schools in the future.

**NOTE H: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 1,951</u>
Due to Capital Projects Fund from:	
General Fund	\$ 98,094
2006 Debt Fund	<u>2,125</u>
	<u>\$ 100,219</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 5,945</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE I: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:  
General fund

\$ 236,052

**NOTE J: EMPLOYEE RETIREMENT SYSTEM**

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008, was \$3,538,988 of which \$3,033,825 was for members who have elected the MIP option; the District's total payroll was \$3,577,424.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED**

For the period of July 1, 2007 to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008, the District was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2008	\$ 117,119	\$ 599,218	\$ 716,377
2007	118,478	619,415	737,893
2006	112,389	550,380	662,769

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2008	4.0 %	17.0 %
2007	4.0	17.5
2006	4.0	16.0

**NOTE K: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2008:

Governmental activities	
Restricted for Debt Service	\$ <u>126,509</u>

**NOTE L: FUND BALANCE RESERVES**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the fund balance reserves as of June 30, 2008:

2006 Debt Fund	
Reserved for debt service	\$ <u>249,803</u>
Nonmajor governmental funds	
Reserved for inventories	\$ <u>1,826</u>

New Lothrop Area Public Schools  
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE M: RISK MANAGEMENT**

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, liability, inland marine, builder's risk, crime, auto, umbrella excess liability, employee dishonesty, boilers and machinery, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

**NOTE N: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT**

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. New Lothrop Area Public Schools, a nonplaintiff District, was awarded \$52,791 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

**NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated. The District's budgeted expenditures in the General Fund have been adopted at the functional classification level and at the total fund level for the Special Revenue Funds.

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Added needs	\$ 492,894	\$ 495,157	\$ 2,263
Supporting services			
Student services	116,224	176,911	60,687
Special Revenue funds			
Food Service Fund	299,116	317,367	18,251

New Lothrop Area Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE P: BONDED CONSTRUCTION FUNDS**

The Capital Project Fund of the District includes the capital projects activities funded in part by the 2006 Building and Site General Obligation Bonds. The remaining funding for the activities recorded within the Capital Project Fund is funded by local appropriations from the General Fund, fund balance that was present in the fund prior to when the bonds were sold, and other local dollars (i.e., interest, etc.) For these projects recorded within the Capital Project Fund, the District has complied with the applicable provisions of Section 1351 (1) of the Revised School Code in the current year except as noted in accompanying report on internal control.

Beginning with the year of bond issuance for the 2006 Building and Site General Obligation Bonds the District has reported the annual construction activity in the Capital Projects Fund. The projects for which the 2006 Building and Site General Obligation Bonds were issued were considered substantially complete on June 30, 2008 and the cumulative expenditures recognized for the construction period through the date of substantial completion were \$16,212,922.

## **REQUIRED SUPPLEMENTARY INFORMATION**

New Lothrop Area Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local sources	\$ 234,841	\$ 260,174	\$ 255,597	\$ (4,577)
State sources	5,479,423	5,659,113	5,686,304	27,191
Federal sources	86,097	92,448	88,586	(3,862)
TOTAL REVENUES	5,800,361	6,011,735	6,030,487	18,752
EXPENDITURES				
INSTRUCTION				
Basic programs	3,089,135	3,227,884	3,210,682	17,202
Added needs	527,688	492,894	495,157	(2,263)
TOTAL INSTRUCTION	3,616,823	3,720,778	3,705,839	14,939
SUPPORTING SERVICES				
Student services	170,240	116,224	176,911	(60,687)
Instructional staff	53,126	79,823	65,446	14,377
General administration	257,201	282,107	263,095	19,012
School administration	345,229	405,833	366,638	39,195
Business	69,562	91,186	89,682	1,504
Operations and maintenance	720,041	663,258	632,509	30,749
Transportation	241,091	280,418	250,981	29,437
Other supporting services				
Technology	188,019	184,415	175,765	8,650
TOTAL SUPPORTING SERVICES	2,044,509	2,103,264	2,021,027	82,237
TOTAL EXPENDITURES	5,661,332	5,824,042	5,726,866	97,176
EXCESS OF REVENUES OVER EXPENDITURES	139,029	187,693	303,621	115,928
OTHER FINANCING SOURCES (USES)				
Payments from other districts	51,400	62,100	40,795	(21,305)
Payments to other districts	(12,000)	(20,000)	(19,737)	263
Transfers to other funds	(199,713)	(254,000)	(236,052)	17,948
TOTAL OTHER FINANCING OTHER FINANCING USES	(160,313)	(211,900)	(214,994)	(3,094)
NET CHANGE IN FUND BALANCE	(21,284)	(24,207)	88,627	112,834
Fund balance, beginning of year	929,058	929,058	929,058	-0-
Fund balance, end of year	\$ 907,774	\$ 904,851	\$ 1,017,685	\$ 112,834

## **OTHER SUPPLEMENTARY INFORMATION**



New Lothrop Area Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue Funds		Total
	Food Service	Athletics	
ASSETS			
Cash and cash equivalents	\$ 37,934	\$ (4,228)	\$ 33,706
Accounts receivable	671	80	751
Due from other governmental units	2,163	-	2,163
Due from other funds	-	5,945	5,945
Inventories	1,826	-	1,826
TOTAL ASSETS	<u>\$ 42,594</u>	<u>\$ 1,797</u>	<u>\$ 44,391</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 11	\$ -	\$ 11
Accrued payroll	-	403	403
Due to other funds	1,951	-	1,951
Other accrued liabilities	-	31	31
TOTAL LIABILITIES	1,962	434	2,396
FUND BALANCES			
Reserved for			
Inventories	1,826	-	1,826
Unreserved			
Undesignated, reported in			
Special revenue funds	38,806	1,363	40,169
TOTAL FUND BALANCES	<u>40,632</u>	<u>1,363</u>	<u>41,995</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,594</u>	<u>\$ 1,797</u>	<u>\$ 44,391</u>

## New Lothrop Area Public Schools

## Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES

Year ended June 30, 2008

	Special Revenue Funds		
	Food Service	Athletics	Total
REVENUES			
Local sources	\$ 210,065	\$ 26,922	\$ 236,987
State sources	15,328	-	15,328
Federal sources	103,029	-	103,029
TOTAL REVENUES	328,422	26,922	355,344
EXPENDITURES			
Current			
Food service	317,367	-	317,367
Athletics	-	261,611	261,611
TOTAL EXPENDITURES	317,367	261,611	578,978
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,055	(234,689)	(223,634)
OTHER FINANCING SOURCES			
Transfers from other funds	-	236,052	236,052
NET CHANGE IN FUND BALANCES	11,055	1,363	12,418
Fund balances, beginning of year	29,577	-	29,577
Fund balances, end of year	\$ 40,632	\$ 1,363	\$ 41,995

## OTHER FINANCIAL INFORMATION

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
New Lothrop Area Public Schools  
New Lothrop, Michigan

We have audited the accompanying balance sheet and statement of revenues, expenditures and changes in fund balance of the Capital Projects Fund, which is the fund that reported the activity of the 2006 Building and Site Bond activity of New Lothrop Area Public Schools as of and for the 28 month and 21 day period ended June 30, 2008. These statements are the responsibility of the District's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the provisions of the Michigan Revised School Code (Public Act 451 of 1976, as amended), Part 17-Bonds and Notes, Section 380.1351 (a) as described in Note O. The presentation is not intended to be a presentation of the District's total revenues and expenditures.

In our opinion, the statements referred to above presents fairly, in all material respects, the financial position of the Capital Projects Fund, which is the fund that reported the activity of the 2006 Building and Site Bond activity of New Lothrop Area Public Schools as of and for the 28 month and 21 day period ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2008, on our consideration of New Lothrop Area Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 17, 2008

New Lothrop Area Public Schools

Capital Projects Fund

2006 Building and Site Bond Activity

BALANCE SHEET

June 30, 2008

ASSETS

Cash and cash equivalents	\$ 493,530
Due from other funds	<u>100,219</u>

TOTAL ASSETS	<u>\$ 593,749</u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 57,487
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FUND BALANCE

Unreserved - undesignated	<u>536,262</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 593,749</u>
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New Lothrop Area Public Schools

Capital Projects Fund

2006 Building and Site Bond Activity

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE

28 Month and 21 Day Period Ended June 30, 2008

REVENUES	
LOCAL SOURCES	\$ 930,751
EXPENDITURES	
Capital outlay	<u>16,212,922</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(15,282,171)
OTHER FINANCING SOURCES (USES)	
Bond proceeds	15,996,846
Bond issuance costs	<u>(206,026)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>15,790,820</u>
NET CHANGE IN FUND BALANCE	508,649
Fund balance, beginning of period	<u>27,613</u>
Fund balance, end of period	<u><u>\$ 536,262</u></u>

NOTE: The total bond issue was \$16,280,000. In accordance with the bond documents, \$283,154 was recorded upon issuance of the bonds in the 2006 Debt Service Fund to service future debt.

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
New Lothrop Area Public Schools  
New Lothrop, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of New Lothrop Area Public Schools as of and for the year ended June 30, 2008, which collectively comprise New Lothrop Area Public Schools' basic financial statements and have issued our report thereon dated October 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Lothrop Area Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Lothrop Area Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Lothrop Area Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at New Lothrop Area Public Schools. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally. This issue was noted and reported in our prior year audit comments.

## 2007-1 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP - CONTINUED

Criteria: Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the District rests with the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the District's annual financial statements and notes to the financial statements in accordance with GAAP. The District relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the District consider obtaining proper training for the appropriate members of the District's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the District's administration to be able to accept responsibility for the amounts and disclosures included in the District's financial statements.

Corrective Action Response: Management of the District is aware of this deficiency and will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

## 2007-3 BANK RECONCILIATIONS

Condition: During our preliminary analysis of the District's bank accounts, we noted that some bank reconciliations had not been performed in a timely manner and/or did not agree with the computerized general ledger. It was also determined through our analysis that the District could not go back in the computerized general ledger and print balance sheet information after a month had past. This prevented the business office from obtaining accurate cash balances at the end of each month. This comment was noted and reported in our prior audit comments.

Criteria: To strengthen internal control over assets susceptible to misappropriation and financial reporting, all bank accounts should be reconciled to the computerized general ledger on a monthly basis.

Effect: Some of the bank reconciliations did not agree to the District's general ledger at the beginning of our preliminary audit fieldwork. This reduces the District's internal control over the receipt and disbursement processes and increases the risk of misappropriation of cash. The District subsequently contracted with a consultant to perform the bank reconciliations and agree all cash accounts to the general ledger which was done before year-end fieldwork started.

Recommendation: We recommend the District review its reconciliation procedures to ensure that all bank accounts are reconciled in a timely manner each month and that those reconciliations agree with the computerized general ledger.

Corrective Action Response: Management of the District is currently reviewing procedures related to bank reconciliations to ensure that all accounts are reconciled to the general ledger on a monthly basis.

## 2008-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of cash and accounts payable were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the District's internal controls.



## 2008-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Recommendation: We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: Management of the District is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above as 2007-3 and 2008-1 are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Lothrop Area Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below.

## 2008-2 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund and the Food Service Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District adopted the budget for the General Fund at the functional and the budget for Special Revenue funds at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District continue to monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: Management of the District is currently reviewing procedures related to budgetary compliance in accordance with State law.

## 2008-3 USAGE OF BOND FUNDS

Condition: During our analysis of the Districts compliance with the State of Michigan Department of Treasury's "Bulletin for School District Audits of Bonded Construction Funds", we noted the District had certain disbursements that were not allowable under the Public Acts governing allowable bond costs.

Criteria: The Public Act that governs allowability over bonded construction funds allows for only certain costs to be paid for by bond dollars.

Effect: The District inadvertently transferred bond dollars to the General Fund early in the fiscal year and failed to realize these transfers took place and return the funds to the bond construction capital project fund. Since the bank reconciliations had not been done in a timely fashion this error was not discovered until year-end. Entries were immediately booked by the District to reflect the funds that were owed back to the Capital Projects Fund. At June 30, 2008 these amounts show as an interfund receivable asset of the Capital Projects Fund.

2008-3 USAGE OF BOND FUNDS - CONTINUED

Recommendation: We recommend the District immediately transfer the necessary funds from the General Fund to the Capital Projects Fund to repay these noted amounts.

Corrective Action Response: Management of the District will immediately transfer these funds back to the Capital Projects Fund from the General Fund for the dollars inadvertently transferred previously in the year. These funds, and all future bond dollars, will be expended in strict compliance with the Public Acts in the future.

New Lothrop Area Public Schools' responses to the findings identified in our audit are described above. We did not audit New Lothrop Area Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Education of New Lothrop Area Public Schools, others within the District, the pass-through grantors, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

October 17, 2008